

STATE OF NEVADA
OFFICE OF THE STATE TREASURER
INVESTMENT POLICY
LOCAL GOVERNMENT INVESTMENT POOL



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I INTRODUCTION

Investment of the State of Nevada (State) Local Government Investment Pool (LGIP) is a function performed by the Office of the State Treasurer (State Treasurer) pursuant to Nevada Revised Statutes (NRS). In addition to investing assets in the LGIP as prescribed by law, with regular oversight provided by the State Board of Finance, the State Treasurer has determined that the investment activities should be further controlled by an investment policy set forth by the State Treasurer and approved by the State Board of Finance. The recognition of the fiduciary responsibility of the State Treasurer and the State Board of Finance has advanced the development of this investment policy and the administration of the LGIP investment program (investment program).

The purpose of this policy is to establish the guidelines that will govern the investment activities of the State Treasurer with regard to the management of the LGIP. Once approved, this policy can only be amended by a majority vote of the State Board of Finance.

This policy will ensure the prudent investment of the LGIP, adherence to NRS applicable to the investment of public funds, maintenance of daily liquidity requirements, anticipation of future cash needs, and realization of a competitive benchmark rate of return.

II SCOPE

This policy applies to all money that comprises the LGIP, the purpose of which is to provide an alternative investment program to be utilized by State local governments (local governments) for the pooling of their public funds. The LGIP is reported as a fiduciary fund type in the State's Comprehensive Annual Financial Report (CAFR).

In accordance with NRS 355.167, any local government, as defined by NRS 354.474, may deposit money into the LGIP for the purpose of investment. In addition to providing local government participants (participants) a safe and convenient method of investment, the LGIP also offers the following benefits:

- a. No minimum or maximum size of accounts.
- b. Multiple accounts may be maintained for accounting purposes.
- c. No transaction size limitation for deposit or withdrawal of money.
- d. No restriction on length of time money is deposited.

III PRUDENCE

The standard of care to be used in the investment program will be the following “prudent person” standard, as hereafter quoted, and will be applied while conducting all investment transactions:

“The state treasurer shall exercise the judgment and care, under the circumstances then prevailing, which a person of prudence, discretion and intelligence exercises in the management of his own affairs, not in regard to speculation, but in regard to the investment of his money, considering the probable income as well as the probable safety of his capital.”

Authorized investment officers and staff who act in accordance with this policy and written procedures in the management of the LGIP, and who exercise the proper due diligence will have no personal responsibility for an individual security’s credit risk or market price changes, provided that deviations from expectations are reported and preventive action is taken to control adverse developments.

IV OBJECTIVES

The LGIP will be managed to accomplish the following objectives:

- a. **Safety:** Safety of principal is the foremost objective of the investment program. Investments in the LGIP shall be undertaken to ensure the preservation of principal in the portfolio.
- b. **Liquidity:** The LGIP will remain sufficiently liquid to allow for normal withdrawals by participants. Approximately 10 percent of the portfolio will be invested in overnight securities.
- c. **Return on Investment:** The LGIP will be invested to attain a benchmark rate of return that is consistent with a short duration portfolio of high quality securities. This would take into account the investment risk constraints that apply to local governments, the prevailing economic environment, and the cash flow characteristics of the portfolio.

V DELEGATION OF AUTHORITY

NRS 355.167(1) authorizes the creation of the LGIP, which is to be administered by the State Treasurer, and which is subject to the periodic review and approval or disapproval of the State Board of Finance. NRS 226.100(1) authorizes the State Treasurer to appoint a Deputy of Investments (Deputy) whose responsibilities include management of the investment program and implementation of procedures consistent with this policy. The Deputy will also be responsible for the supervision and regulation of the investment staff and all external investment professionals associated with the investment program.

VI INVESTMENT PROCEDURES

The State Treasurer will establish written procedures detailing the operation and regulation of the investment program. The procedures set forth the trading authorization of the investment staff, the daily responsibilities of implementing the investment program, and the segregation of investment duties. The State Treasurer will submit to periodic independent audits to determine that investment activities adhere to State statutes, administrative rules, and investment policies.

VII ETHICS

All investment staff will act responsibly as custodians of public funds. The staff will refrain from personal business activity that could conflict with the proper execution of the investment program or that could impair their ability to make impartial investment decisions.

VIII AUTHORIZED FINANCIAL INSTITUTIONS

- a. The State Treasurer will maintain a list of financial institutions which are authorized to provide investment services. The list will include:
 1. “Primary” dealers or other dealers which qualify under SEC Rule 15C3-1, the Uniform Net Capital Rule, which are registered to conduct business in Nevada.
 2. Banks which are organized and operating, or licensed to operate in the United States under federal or state law.
- b. The State Treasurer maintains relationships with qualified members of the financial community who have reviewed the eligible investments that are prescribed in NRS and the adopted investment policies, and who are aware of the investment needs, constraints, and goals of the investment program. A “Request for Information” (RFI) is periodically issued to provide a uniform standard the State Treasurer may use to identify the financial condition and professional merits of any financial institution included on the list. An “Affidavit of Suitability”, attesting to having reviewed and understood the contents of the investment policies and NRS, must be completed for final selection. A current audited financial statement for each approved financial institution shall be maintained in the State Treasurer’s office.
- c. The State Treasurer will encourage all qualified financial institutions providing investment services in the State, including those owned by women, minorities, and/or the physically impaired, to respond to the RFI. Consideration will be given to all institutions when their services are competitive on a national basis.

IX AUTHORIZED INVESTMENTS

The State Treasurer, in accordance with the provisions of NRS 355.170, and this policy, is authorized to invest money of the LGIP in:

- a. Asset-Backed Securities (ABS)
 - 1. Rating must be “AAA” or it’s equivalent.
 - 2. The final cash flow payment date will not exceed two (2) years assuming a zero (0) pre-payment speed.
 - 3. Aggregate par value may not exceed 20 percent of total par value of the portfolio.
 - 4. No more than five (5) percent of total par value of the portfolio may be in one (1) issuer.
- b. Bankers’ Acceptances
 - 1. Rating must be “A-1”, ” P-1”, or it’s equivalent or better
 - 2. Maximum maturity of 180 days.
 - 3. Aggregate par value may not exceed 20 percent of total par value of the portfolio.
 - 4. No more than five (5) percent of total par value of the portfolio may be in one (1) issuer.
- c. Collateralized Mortgage Obligations
 - 1. Rating must be “AAA” or it’s equivalent.
 - 2. The final cash flow payment date will not exceed two (2) years assuming a zero (0) PSA pre-payment speed.
 - 3. If underlying collateral is non United States government agency securities, no more than five (5) percent of total par value of the portfolio may be in one (1) issuer.
- d. Commercial Paper
 - 1. Rating must be “A-1”, “P-1”, or it’s equivalent or better.
 - 2. Maximum maturity of 270 days.
 - 3. Aggregate par value may not exceed 20 percent of total par value of the portfolio (See XII Diversification a-2).
 - 4. No more than five (5) percent of total par value of the portfolio may be in one (1) issuer.
- e. Corporate Notes
 - 1. Rating must be “A”, or it’s equivalent or better.
 - 2. Maximum maturity of two (2) years.

3. Aggregate par value may not exceed 20 percent of total par value of the portfolio (See XII Diversification a-2).
 4. No more than five (5) percent of total par value of the portfolio may be in one issuer.
 5. If the rating is reduced below the level of “A”, the security must be sold as soon as possible.
- f. Money Market Mutual Funds
1. Only SEC registered 2(A)7 funds are eligible.
 2. Rating must be “AAA” or it’s equivalent.
 3. Investments must only be:
 - a) United States Treasury or United States government agency securities.
 - b) Master notes, bank notes, or commercial paper rated “A-1”, “P-1” or its equivalent or better, issued by a corporation organized and operating in the United States or by a depository institution licensed by the United States, or any state, and operating in the United States.
 - c) Repurchase Agreements collateralized by the securities in f-3a) and f-3b).
 4. Funds must maintain a \$1 Net Asset Value.
- g. Negotiable Certificates of Deposit
1. Issued by commercial banks.
 2. Issued by insured savings and loan associations.
 3. Issued by insured credit unions.
 4. Rating must be “A-1”, “P-1” or it’s equivalent or better.
 5. Maximum maturity of one (1) year.
 6. Aggregate par value may not exceed 20 percent of total par value of the portfolio (See XII Diversification a-2).
 7. No more than five (5) percent of total par value of the portfolio may be in one (1) issuer.
- h. Repurchase Agreements
1. Executed with a qualified counterparty approved by the State Treasurer.
 - a) Counterparty means a bank which is organized and operating or licensed to operate in the United States under federal or state law or a securities dealer which is a registered broker/dealer, designated by the Federal Reserve Bank of New York as a “primary” dealer, and in full compliance with all applicable capital requirements.
 - b) Counterparty must provide annual audited financial statements to the State Treasurer.

- c) Counterparty must have executed a written master repurchase agreement in a form satisfactory to the State Treasurer and the State Board of Finance prior to transacting a repurchase agreement.
 - 2. Maximum maturity of 90 days.
 - 3. Collateral requirements (see X Collateralization a-2).
 - 4. The limit to one (1) counterparty will be 10 percent of total par value of the portfolio.
- i. Student Loan Marketing Association
 - 1. Maximum maturity of two (2) years.
- j. United States Treasury Bills, Notes, and Bonds
 - 1. Maximum maturity of two (2) years.
- k. United States Government Agency Securities
 - 1. Fannie Mae
 - 2. Federal Agricultural Mortgage Corporation
 - 3. Federal Farm Credit Bank
 - 4. Federal Home Loan Bank
 - 5. Federal Home Loan Mortgage Corporation
 - 6. Government National Mortgage Association
 - 7. Maximum maturity of two (2) years.

X COLLATERALIZATION

- a. Repurchase Agreements
 - 1. Transacted on a delivery versus payment basis, whereby the securities custodian will disburse cash for repurchase agreements only upon the receipt of the purchased securities.
 - 2. The purchased securities will be United States Treasury or United States government agency securities with a term to maturity not to exceed 10 years. The market value of the purchased securities must equal or exceed 102 percent of the repurchase price to be paid by the counterparty and the value of the purchased securities must be marked to the market weekly. If the value of the purchased securities should fall below 102 percent, the counterparty will be required to submit additional collateral to make up the deficit. The date on which the securities are to be repurchased must not be more than 90 days after the date of purchase.

XI SAFEKEEPING/CUSTODY AND DELIVERY

- a. Securities purchased by the State Treasurer for the LGIP, as well as collateral for repurchase agreements will be delivered against payment and held in a custodial safekeeping account with an approved financial institution acting as a third party custodian.
- b. The State Treasurer will periodically issue an RFP for Master Securities Custody Services, which will encompass the following functions:
 - 1. The settlement of all purchase, sales, and calls through the Federal Reserve System (Fed) or the Depository Trust Company (DTC).
 - 2. The collection and distribution of all interest payments.
 - 3. The collection and distribution of all paydowns associated with collateralized mortgage obligations and asset-backed securities.
 - 4. The receipt and disbursement of all repurchase agreement collateral.
 - 5. The facilitation of all trading activity conducted by investment managers and the securities lending agent.
 - 6. Providing daily accounting and bookkeeping of all investment accounts, weekly market evaluation of securities, and month end reports that show a detailed list of holdings with market evaluations.

XII DIVERSIFICATION

- a. Securities held in the LGIP will be diversified to eliminate the risk of loss from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The following diversification limitations shall be imposed:
 - 1. With the exception of United States Treasury securities, United States government agency securities, and repurchase agreements, no more than 20 percent of the total par value of the portfolio will be invested in a single security type.
 - 2. No more than 40 percent of the total par value of the portfolio will be invested in any combination of negotiable certificates of deposit, commercial paper, and corporate notes.

XIII MATURITIES

- a. **Liquidity:** To the extent practical, investment maturities must match normal cash flow requirements of the participants. Portfolio management will require a continuous assessment of these needs for a 60 day period.
- b. **Market Risk:** Market risk relates to the constant price fluctuations of securities that may result in a loss to the LGIP if cash flow requirements force a premature sale.

Portfolio maturities must be structured to avoid the forced sale of securities in any but the most severe circumstances. The projection of a “Minimum Liquidity Requirement” will be enforced to ensure that money is available to meet the short-term operating needs of the participants.

- c. **Minimum Liquidity Requirement:** The total cash flow needed to fund anticipated LGIP obligations for a period of four (4) weeks. All securities included in this requirement must mature within 28 days.
- d. **Intermediate Market Investment:** That portion of LGIP money remaining after adherence to the “Minimum Liquidity Requirement” may be invested in the intermediate market, which would include securities maturing between zero (0) and two (2) years, provided that the average maturity of the portfolio does not exceed 150 days.

XIV PERFORMANCE EVALUATION

The LGIP will be invested to attain a benchmark rate of return consistent with imbedded cash flow requirements and risk constraints, and dependent upon prevailing economic factors. The LGIP maintains a conservative, “buy and hold” investment strategy, which incorporates the matching of maturing securities to the cash requirements of the participants. Given this strategy, the benchmark used by the State Treasurer to determine whether competitive market yields are being achieved will be the three (3)-month United States Treasury bill yield. The comparison will be made on a weekly basis.

XV ACCOUNTING AND REPORTING

- a. The State Treasurer will maintain a technologically sufficient investment system that will account for all investment transactions, produce detailed reports of securities holdings, calculate yield to maturity and average portfolio life, create securities amortizations, and calculate portfolio earnings.
- b. The investment system will also provide fund accounting capabilities which will track participant deposits and withdrawals, and which will calculate the distribution of interest earnings.

- c. The State Treasurer will provide each participant a monthly report which contains the following information:
 - 1. Deposit or withdrawal by date.
 - 2. Beginning and ending balance.
 - 3. Interest earnings.
 - 4. Annualized gross and net yields.
 - 5. Administrative fee.
- d. Per NRS 355.045, the State Board of Finance will review the investment policies of the LGIP at least every four (4) months. The State Treasurer will submit a quarterly report which will contain the following information to permit an evaluation of the performance of the LGIP portfolio:
 - 1. An overview of market and economic conditions for the quarter.
 - 2. The investment strategy used for investment of the portfolio.
 - 3. A list of securities holdings in the portfolio at quarter end that categorizes each type of security.
 - 4. Yield to maturity and average life of the portfolio at quarter end.
 - 5. Percentage allocation of securities by category.
 - 6. Dollar value earnings distribution for the quarter.
 - 7. Performance of the portfolio versus the selected benchmark.
- e. The report will allow the State Board of Finance to review investment results, provide suggestions for improved future performance, and to verify that investment staff has acted in accordance with investment policies and procedures.

XVI YIELD CALCULATION AND EARNINGS

- a. Interest is distributed to participants monthly using the accrual basis of accounting, whereby income and expense items are recognized as they are earned or incurred, even though they may not have been actually received or paid.
- b. The SIA (Securities Industry Association) method of calculating yield is utilized. The yield is computed monthly on an annualized basis, using the amortized book value of the securities held in the portfolio. Yield is quoted both gross and net of administrative fees.
- c. Earnings composed of gains and losses are calculated and distributed in the month in which they were realized.

- d. Total earnings are apportioned to each LGIP sub-account on a pro-rata basis of each account's average weighted dollar days to the LGIP's total average weighted dollar days. (Dollar day = one (1) dollar in the account for one day.)

XVII INTERNAL CONTROLS

- a. A system of controls will be established by the State Treasurer to monitor investment transactions and associated activities. These controls are created to safeguard against fraud, investment staff error, or other actions that could result in a loss of local government money.
- b. The State Treasurer is subject to periodic audits by the Legislative Counsel Bureau that includes unscheduled cash and securities counts. An independent accounting firm, which will determine that investments are being made according to State statute, investment policy and procedures, and administrative regulations, will audit the LGIP annually.

XVIII SECURITIES LENDING

In accordance with NRS 355.167(4), the State Treasurer may lend securities from the LGIP. The Securities Lending Policy is included in this policy as "Appendix A".

XIX APPROVAL

This policy is approved by the State Board of Finance on:

Date:

Attested to by: _____
John E. Adkins
Chief Deputy Treasurer
Ex-Officio Secretary to the State Board of Finance

GLOSSARY

**ASSET- BACKED SECURITY
(ABS)**

A security backed by notes or receivables against assets other than real estate. Examples are automobiles and credit card receivables.

**AUTHORIZED
BROKER/DEALERS AND
FINANCIAL INSTITUTIONS**

Broker/dealers and financial institutions approved by the State Treasurer to provide investment services.

**BANKERS'
ACCEPTANCES
(BA)**

Bankers' Acceptances are negotiable short-term financial instruments which are unconditional obligations of the accepting bank. They are issued on a discount basis.

BASIS POINT

1/100 of one (1) percent. (decimally .0001)

BENCHMARK

A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BROKER

A party who brings buyers and sellers together, and charges a commission for this service.

**CERTIFICATE OF DEPOSIT
(CD)**

A negotiable time deposit issued by a bank in certificate form. A CD is issued with a specific maturity date and pays interest at maturity.

COLLATERAL

Securities or cash which a borrower pledges to secure repayment of a loan.

**COLLATERALIZED
MORTGAGE OBLIGATION
(CMO)**

A security which pools together mortgages and separates them into short, medium, and long-term "tranches". Tranches are set up to pay different rates of interest depending upon their maturity. Interest is usually received on a monthly basis.

**COMMERCIAL PAPER
(CP)**

A short-term promissory note issued by a corporation. Commercial paper is issued on a discount basis and has specific maturity dates not to exceed 270 days.

CORPORATE NOTE

A negotiable security issued by a corporation.

CUSTODIAN	A financial institution approved by the State Treasurer to provide safe-keeping services with respect to securities and securities-related assets, and to provide other services which may include trade settlement, interest collection and transaction reporting.
DEALER	A firm or individual who buys and sells for his own account.
DELIVERY VS. PAYMENT (DVP)	The exchange of securities and cash at settlement date.
DISCOUNT BASIS	The price of a security expressed as an annualized rate of discount. Discounted securities are purchased at a dollar price below face value, and mature at face value.
DIVERSIFICATION	Allocating investment funds to a variety of securities to minimize market risk.
DURATION	The weighted average maturity of the security's cash flows, where the present values of the cash flows serve as the weights. The greater the duration of a security, the greater it's percentage price volatility.
FAIR VALUE	The amount at which an investment can be exchanged between buyer and seller.
FANNIE MAE	Established by Congress in 1938 to provide liquidity to the mortgage market, especially the secondary market for residential mortgages. Legislation in 1968 transformed the agency into a publicly owned, privately managed corporation, but still required government regulation. Previously known as Federal National Mortgage Association.
FEDERAL AGRICULTURAL MORTGAGE CORPORATION (FARMERMAC)	A federally chartered agency of the United States. It was established to provide a secondary market for agricultural real estate mortgage loans.
FEDERAL FARM CREDIT BANK (FFCB)	The Federal Farm Credit Administration, a federal agency, is responsible for regulating the banks and associations which comprise the Federal Farm Credit System. This System provides credit solely to the United States agricultural sector.
FEDERAL FUNDS RATE	The interest rate charged by banks having excess reserves to banks needing the money to meet reserve requirements.

**FEDERAL HOME LOAN
BANK (FHLB)**

The Federal Home Loan Bank Board, established by Congress in 1932, is comprised of 12 Federal Home Loan Banks. The Board is authorized to provide support and liquidity to savings and loans, banks, and insurance companies engaged in home financing.

**FEDERAL HOME LOAN
MORTGAGE CORPORATION
(FREDDIEMAC)**

Established by Congress in 1970 to enhance the liquidity of mortgage investments and to improve the distribution of investment capital available for home mortgage financing. Legislation in 1989 transformed the agency into a publicly owned, privately managed corporation, but still required government regulation.

GOVERNMENT AGENCIES

Refers to securities issued by agencies of the United States government and United States government sponsored enterprises. Securities issued range in maturity from overnight to longer than 10 years. Securities may be issued on a discount basis, or may be interest bearing. Agencies would include FARMERMAC, FFCB, FHLB, FREDDIEMAC, and FANNIEMAE.

**GOVERNMENT NATIONAL
MORTGAGE ASSOCIATION
(GNMA)**

Established in 1986 to take over some of the functions performed by FNMA. GNMA is an agency controlled by the Department of Housing and Urban Development (HUD). GNMA is authorized to confer a full faith and credit guarantee of the United States government for the timely payment of both principal and interest on packages of mortgages it creates in its mortgage pass-through securities program.

**LEGISLATIVE COUNSEL
BUREAU (LCB)**

Encompasses the lawmaking authority of the State of Nevada. It is empowered to enact the laws of the State and provides oversight of the executive and judicial branches of government through the budget and audit processes and reviews the regulations developed by State agencies.

LIQUIDITY

The capacity to meet future financial obligations from available resources.

**LOCAL GOVERNMENT
INVESTMENT POOL**

A state investment program, usually administered by the State Treasurer, which manages the monies of local governments by using the pooling method.

**MASTER REPURCHASE
AGREEMENT**

A written contract between the State Treasurer and an approved counterparty which details each party's obligations in a repurchase agreement transaction. Among other things, it will specify the right of the buyer to liquidate the underlying securities in the event of default by the seller.

MONEY MARKET FUNDS

A mutual fund that invest only in money market instruments, or those securities having a maturity of one (1) year and under.

NEVADA REVISED STATUTES (NRS)	The codified laws of the State of Nevada as enacted by the Legislature.
PAR VALUE	The principal amount a holder will receive at the maturity of an issue.
PORTFOLIO	A collection of securities held by an investor.
PREMIUM	The amount by which the market price of an issue exceeds face value.
PRUDENT PERSON RULE	An investment standard which may be adopted by an investment organization to guide those with the responsibility for the investment of money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments.
RATINGS	The evaluation of an issuer's credit standing published by Moody's, Standard & Poors, Fitch or other rating services.
REPURCHASE AGREEMENT	A simultaneous sale of securities by a bank or broker/dealer with an agreement to repurchase those securities at an agreed upon date, and at an agreed-upon rate of interest.
SAFEKEEPING	A fee arrangement whereby an approved financial institution holds a customer's securities in it's vaults, or in the case of book-entry securities, maintains a safe-keeping receipt recorded in the customer's name as evidence of ownership.
SECURITIES INDUSTRY ASSOCIATION	An organization which offers premiere educational programs to member securities firms.
STUDENT LOAN MARKETING ASSOCIATION (SALLIE MAE)	Established in 1972 by Congress as a publicly owned, government sponsored enterprise(GSE), created to provide liquidity for originators of student loans made under federally sponsored student loan programs. In 1997 shareholders voted to privatize Sallie Mae, although the GSE remains the obligor in all pre and post privatization public debt issued.
TIME CERTIFICATE OF DEPOSIT (TCD)	A non-negotiable financial instrument issued with a specific amount, rate and maturity date.
UNITED STATES TREASURY BILLS(T-BILLS)	A discounted security issued by the United States Treasury. T-bills are issued with maturities of three (3) and six (6) months.

**UNITED STATES
TREASURY NOTES**

Interest-bearing securities issued by the United States Treasury. Notes are issued with maturities from two (2) to 10 years.

YIELD

The rate of annual return on an investment expressed as a percentage. **YIELD TO MATURITY** is the total money earned from investment date to maturity date assuming: 1) semi-annual interest payments, 2) interest is reinvested at same rate security was purchased at, and 3) the premium is subtracted or discount is added to final money.